US guarantees all deposits after Silicon Valley Bank collapse, as Biden promises action

Edward Helmore

US financial regulators rolled out emergency measures on Sunday night to stem potential contagion from the collapse of Silicon Valley Bank. The measures include ensuring that depositors with the failed bank would have access to all their money on Monday morning.

Regulators announced the measure in a joint statement from the treasury secretary, Janet Yellen, the Federal Reserve chair, Jerome Powell, and the Federal Deposit Insurance Corporation (FDIC) chair, Martin Gruenberg.

“Depositors will have access to all of their money starting Monday, March 13. No losses associated with the resolution of Silicon Valley Bank will be borne by the taxpayer,” they said in a statement.

The announcement came as Signature Bank was closed on Sunday by regulators, the second to fail in a week. Depositors in Signature would also be made whole, the statement said.

“Rationally, this should be enough to stop any contagion from spreading and taking down more banks, which can happen in the blink of an eye in the digital age,” said Capital Economics analyst Paul Ashworth. “But contagion has always been more about irrational fear, so we would stress that there is no guarantee this will work.”

Banks will also now be allowed to borrow essentially unlimited amounts from the Federal Reserve for the next year, as long as the loans are matched by safe government securities, a way to prevent financial firms from having to sell a class of investments that have been losing value because of the Fed’s own high interest rate policies.

This means banks will be able to easily access depositors’ cash, without having to sell government bonds that have fallen in value over the last year, as interest rates have risen.

“The American people and American businesses can have confidence that their bank deposits will be there when they need them,” Joe Biden said in a statement. The president is set to speak on Monday, to lay out how the US will maintain a resilient banking system.

“I am firmly committed to holding those responsible for this mess fully accountable and to continuing our efforts to strengthen oversight and regulation of larger banks so that we are not in this position again.”

The interventions came after Yellen said on Sunday there would be no bailout for Silicon Valley Bank, which collapsed this week, raising fears of a crisis, but also said the Biden administration was working with regulators to help depositors hit by the fall of SVB.

Yellen said conditions did not match the 2008 financial crisis, when the collapse of large institutions threatened to bring down the global financial system. She also sought to calm fears the $23tn US banking system could be affected by the fall of a regional bank.

“The American banking system is really safe and well-capitalised, it’s resilient,” Yellen told CBS’s

Face the Nation. “Americans can have confidence in the safety and soundness of our banking system.

“Let me be clear that during the financial crisis, there were investors and owners of systemic large banks that were bailed out … and the reforms that have been put in place means we are not going to do that again.

“But we are concerned about depositors and are focused on trying to meet their needs.”

The sudden failure of the California bank with assets valued at $212bn, which primarily lent to tech startups, rattled investors. Its clients include Etsy, Roku and Vox Media and its collapse has shaken a tech sector already facing difficulties including unprecedented layoffs.

On Friday, SVB was placed under the control of the FDIC, which guarantees deposits up to $250,000. Many companies and individuals stood to lose more than half of deposits in excess of that, according to some estimates.

Mark Warner, a Virginia Democrat on the US Senate banking committee, said SVB had been “caught in a bind” by higher interest rates. A run on the bank last week, with $42bn withdrawn on Thursday alone, was accelerated by “some actors”, he told ABC’s This Week.

Warner indicated consensus that “shareholders of [SVB] ought to lose their money. Depositors have been a different circumstance, but there are questions around moral hazard”.

The risk and financial advisory firm Kroll said it was “unlikely that an SVB-style bankruptcy will extend to the large banks”. But it warned that small community banks could face problems, a risk “much higher if uninsured depositors of SVB aren’t made whole”.

Regional banks have seen their values plunge since SVB’s woes emerged. New York-based Signature Bank provides banking services to law firms. Regulators said the decision to close it came “in light of market events, monitoring market trends.” Other banks including First Republic Bank, Western Alliance and PacWest have also been hit by SVB’s fall.

The failure of SVB “could be the first cockroach in the cellar”, the investment manager Fredric Russell told the Wall Street Journal. The failed bank was reportedly without a risk management officer for months before it collapsed.

“Banks get thrown into the dark pool of complacency, and then they lower their quality standards,” Russell said.